



Audit committees must evolve in a changing world



In an evolving world, audit committees must bring new knowledge to traditional skills

By Kristy Carscallen

The Canadian business environment is changing dramatically – and at rapid speed. As some organizations may struggle to adapt in the near term, the technological, societal and regulatory changes will have far-reaching and lasting effects on financial reporting, business models and organizations’ interactions with society.

This past year, interest rates continued to rise; new regulations were introduced; environmental, social and governance (ESG) and diversity, equity and inclusion (DEI) issues remained top of mind; and we saw excitement and trepidation over the explosive rise of generative AI (GenAI). Audit committees play a vital role in overseeing the impact and risk these changes may bring, but to shepherd their organizations into the future, they must be prepared to evolve. The traditional roles and skills of the audit committee have never been more crucial, but the context in which they’re used is shifting—in some cases, at breakneck speed.

Audit committees need to think about liquidity

The Bank of Canada’s target for the overnight interest rate is now at levels not seen in 20 years—and Canadian businesses are feeling the pinch. Business insolvencies for the year ended August 31, 2023, increased by 36.7% compared with the previous year ^[1] and the major banks are increasing their provisions for credit losses. Cashflow management will remain the litmus test for organizations, meaning audit committees must monitor it closely.

New reporting requirements are part of the ever-evolving cybersecurity landscape

The cyber threats posed by criminals and hostile nation-states, and the related reporting requirements, keep evolving. Audit committees must ensure management understands the organization’s data flows and identifies critical data to stay ahead of threat actors. And they must prepare for new cyber incident reporting requirements coming to the U.S. this year and arriving soon in Canada.



The traditional roles and skills of the audit committee have never been more crucial, but the context in which they’re being used is shifting. Audit committees must be prepared to evolve to shepherd their organizations into the future.

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Formal ESG reporting is here

ESG reporting is becoming mandatory—and the move to unified financial and ESG reporting has begun. The first formal international accounting standards for ESG have now been issued, and some Canadian organizations will soon be required to make climate-related financial disclosures and report on their efforts to minimize the risks of forced or child labour being used in their supply chain. Audit committees must ensure management has mapped out a path to completion to be ready for these new requirements and associated third-party assurance.

AI might change everything

While many people are excited about the possibilities of AI, audit committees need to think bigger. For example, introducing GenAI to an organization is a complex undertaking that requires the proper infrastructure, policies and procedures and the growing use of AI raises questions about its impact on people and how we view intellectual property. Audit committees must assess the business case for AI in their organizations, look at data quality, rethink how intellectual property is viewed, understand stakeholder impacts and prepare for upcoming regulations.

Audit committees will need to look at their talent

ESG, DEI and new technologies like AI are not new issues for audit committees. But they're bringing new regulations and changing how organizations view risk. The ongoing evolution of these concerns requires audit committees to move their knowledge of these areas beyond awareness to a point where they can think critically about them. Audit committees must look at their own talent, training and succession plans in addition to the organization's. To govern within this new context, audit committees must embrace members with new skill sets and embark on a continuous learning journey.

Questions are key

The quest for new knowledge begins with asking the right questions. To build a foundation from which to frame these questions, it can be helpful for audit committees to gain insight into the newest thinking around issues that may affect risks and reporting. In this year's Accelerate insights series, subject matter experts from across KPMG in Canada examine these issues and raise some of the critical questions audit committees need to ask to better understand the new context in which they operate.

Contact us

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[1] "Insolvency Statistics in Canada — August 2023 (Highlights)," Government of Canada, Office of the Superintendent of Bankruptcy (website), accessed October 4, 2023